



# CONSUMER ALERT

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## Life Insurance: How Much do I Need?

The answer isn't really how much life insurance you need, it's how much money your family will need after you're gone.



### Ask yourself:

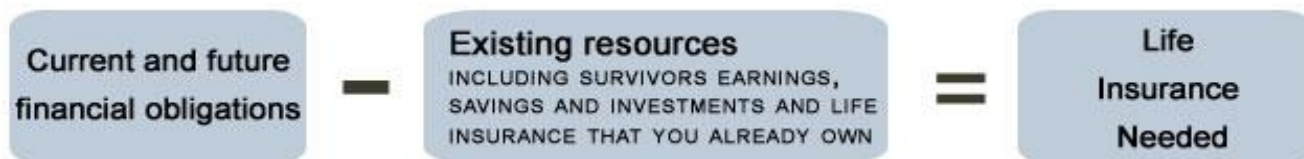
- How much money will my family need after my death to meet immediate expenses, like funeral expenses and debts?
- How much money will my family need to maintain their standard of living over the long run?

Life insurance proceeds can help pay immediate expenses including uncovered medical costs, funeral expenses, final estate settlement costs, taxes and other lump-sum obligations such as outstanding debts and mortgage balances. They can also help your family cover future financial obligations like everyday living expenses, money for college or your spouse's retirement, and so much more.

But how do you know if you need \$100,000, \$500,000, \$1 million or more? The most common way to determine your life insurance needs is by conducting what is called a *Capital Needs Analysis*.

Here's how it works. Start by evaluating your family's needs. Gather all your personal financial information and estimate what each of your family members would need to meet current and future financial obligations. Then tally up all the resources that your surviving family members could draw upon to support themselves. The difference between their needs and the resources in place to meet those needs is your need for additional life insurance (see diagram below).

This may look simple enough, but calculating one's life insurance needs can actually get pretty complicated. To make it easy for you to get a general sense of your needs, check out the LIFE Foundation's [life insurance needs calculator](#). It'll walk you through the process and provide you with an estimate of your insurance needs in a matter of minutes.



But remember, the calculator is no substitute for the guidance and assistance you'll get by meeting with a licensed insurance agent or other financial professional. So if you're seriously considering ways to protect your family's future, contact the D.C. Department of Insurance, Securities and Banking (DISB) at (202)

727-8000 or visit its Web site at [www.disb.dc.gov](http://www.disb.dc.gov) to find out whether your agent or company is licensed in the District of Columbia.

### **Life Insurance Needs Calculator**

So, how much life insurance do you need? Well, the answer lies in how much investment capital your family will need at the time of your death. Their need for capital—on a gross basis—is really a function of two variables:

- 1. How much will be needed at death to meet immediate obligations?**
- 2. How much future income is needed to sustain the household?**

The first category is fairly easy to estimate. It's the sum of final expenses (including uncovered medical costs, funeral expenses and final estate-settlement costs) and other lump-sum obligations (such as outstanding debts, mortgage balance, and college costs).

The second variable is a bit trickier. It involves calculating the “present value” of future needed cash-flow streams. By answering a few simple questions on the following link, [life insurance needs calculator](#), you can get a rough sense of the needs for capital that might exist at your death.

#### **A few tips:**

The analysis of your needs depends upon the answers you provide to the questions on the above link. Please answer all questions. If you do not understand a question, click on the highlighted term for more information and it'll explain what is seeking.

This calculator has provided a rough sense of your potential life insurance needs. To the extent that you or your beneficiaries are eligible for Social Security benefits, those benefits have not been included in this analysis. Social Security benefits, if available, will somewhat reduce the need for life insurance. For a more accurate and detailed analysis, contact DISB to find a licensed professional.

### **About Life Insurance Awareness Month**

Life Insurance Awareness Month was created by the LIFE Foundation in response to growing concern about the large number of Americans who lack adequate life insurance protection. The Life and Health Insurance Foundation for Education (LIFE) is a nonprofit organization, founded 1994, and dedicated to helping consumers make smart insurance decisions to safeguard their families' futures. It was created in response to the public's need for information and education on life, health, disability and long-term care insurance.

According to LIMRA International, a leading industry research firm, 68 million adult Americans have no life insurance. Those who own life insurance have an average of four times their annual income in coverage, which is considerably less than most experts recommend.

Held each September, Life Insurance Awareness Month is an industry-wide, national effort involving more than 100 leading companies and government regulators. The D.C. Department of Insurance, Securities and Banking, the District government's regulator for the financial services industry, supports the efforts of Life Insurance Awareness Month, using this month to highlight the need for Americans to consider buying life insurance.

*For more information, contact DISB at (202) 727-8000 or visit our Web site at [www.disb.dc.gov](http://www.disb.dc.gov).*